



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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## Grassley Works to Revive Dropped Tax Relief Items

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today said he plans to introduce legislation this week that will include two key family tax relief items dropped from the just-passed tax relief law, and make permanent a third provision that was passed.

“The point of the tax relief legislation is to create jobs,” Grassley said. “Job creation comes from putting more money in consumers’ pockets, because consumers drive our economy, and by cutting costs for small businesses, which create most jobs. Too many people in this country can’t find a job right now. That’s a fearful situation. People have to provide for their families. And even when they have jobs, they need more money in their paychecks to feed and clothe their families. The cost of bread and milk goes up all the time. Tax relief helps.

“Some of us in Congress wanted more family tax relief in this package than what we ultimately passed. We wanted to build on the family tax relief we passed in 2001. But House negotiators didn’t want any offsets, so we had to drop a lot from the bill. Some Democratic senators who said they wanted extra family tax relief would have voted against the bill regardless because they didn’t like some of the provisions. However, now these Democratic senators are saying we didn’t cut taxes enough. I invite them to work with me to pass my new legislation.”

Grassley’s new bill will include three elements:

**An acceleration of the refundability of the child tax credit**, a significant benefit for lower income parents, to 2003. Grassley agreed to include this provision in his manager’s amendment to the comprehensive tax relief bill, and it passed the full committee and the Senate, but House-Senate conferees dropped it, along with many other provisions.

Grassley said the 2001 tax relief legislation, which he led the Senate in producing, created the refundable child credit. The refundable child credit benefits working families who wouldn’t otherwise have received the child credit because they have too little or no income tax liability. Under refundability, these families receive a government check even though they have little or no income tax liability.

Under the 2001 law, the child credit is refundable to the extent of 10 percent of the taxpayer’s

earned income in excess of \$10,000 for 2001 through 2005. The percentage is increased to 15 percent for 2005 and after. The \$10,000 amount was indexed for inflation beginning in 2002. Under the new tax relief law, a family with an eligible child making \$18,500 will get an \$800 check this year – an increase from \$600 under previous law. Under the new Grassley bill, that family would get a \$1,000 check this year.

This provision would cost \$3.5 billion over 10 years.

Grassley said it's important to remember that the accelerated refundable child credit doesn't include the Earned Income Credit that a family might also receive. For example, under current law, a married couple with two children with income between \$10,350 and \$14,550 will receive a check for \$4,140 for their 2002 return from the Earned Income Credit alone. This couple likely has no federal income tax liability.

**Uniform definition of a child,** a major tax simplification measure to make filing easier for just about anyone with a child and to increase child-related benefits for hundreds of thousands more taxpayers.

Under current law, a series of different eligibility tests for child-related benefits are a source of complexity for a significant number of taxpayers and for the Internal Revenue Service, Grassley said. Also, they are a source of errors for taxpayers. For more than a decade, tax experts such as those at the Joint Committee on Taxation have recommended a uniform definition of a child as a major tax simplification measure.

Under Grassley's new proposal, the tax code would have a uniform definition of a qualifying child for the dependency exemption, the child credit, the earned income credit, the dependent care credit, and head of household filing status. Under the uniform definition, in general, a child is a qualifying child of a taxpayer if the child satisfies each of three tests: (1) the child has the same principal place of abode as the taxpayer for more than one half the taxable year; (2) the child has a specified relationship to the taxpayer; and (3) the child has not yet attained a specified age.

This simplified, uniform definition would make hundreds of thousands more taxpayers eligible for child-related tax benefits.

"There's a lot more work to do on making taxes easier," Grassley said. "But I'm glad to start with part of the tax code that causes headaches for many Americans every year. And making more families eligible for child-related benefits is important. Those benefits help families prosper, and people should have access to them."

This provision would cost \$1.77 billion over 10 years.

**Making the child credit permanent.** The 2001 tax relief law, which Grassley authored in the Senate, increased the per-child tax credit to \$1,000 per year, phased in over 10 years. The new tax relief law significantly accelerates this credit, moving up the per-child tax credit of \$1,000 to 2003. The law also will make advance payments beginning in 2003, so taxpayers will get a

government check in the next few weeks based on their 2002 returns filed in 2003.

Under the just-passed law, the child tax credit is \$1,000 for 2003 and 2004 only; the child tax credit reverts to current law (from 2001) – \$700 in 2005 through 2008, \$800 in 2009; and \$1,000 in 2010. The entire 2001 package ends after 2010, per the Congressional Budget Act.

Grassley's new bill makes the per-child tax credit permanent at \$1,000, beginning in 2005. "It's good tax policy today, and it'll be good tax policy tomorrow," Grassley said.

Taxpayers eligible for the per-child tax credit have incomes starting at \$10,500 (taxpayers with less income receive the refundable child tax credit and get a check). The per-child tax credit phases out at incomes of over \$75,000 for single individuals or heads of households and \$110,00 for married individuals.

No cost estimate is available.

Grassley said that even without his new proposal, the tax relief law from 2001 and this spring provide significant benefits to low-income Americans, including those who don't earn enough income to owe taxes.

The 2001 tax law created a new 10 percent income tax bracket for the part of taxable income that had been taxed at 15 percent. This spring's tax relief law accelerates the scheduled increase in the taxable income levels for the 10 percent bracket. In other words, more Americans will have part of their income taxed at a lower rate sooner than scheduled. The new law also accelerates marriage penalty relief, including an expansion of the 15 percent rate bracket for married couples.

According to the Treasury Department, the new law will take three million taxpayers off the tax rolls entirely. The \$1,000 child tax credit alone will reduce many families' income tax liability to zero. The expansion of the 10 percent bracket will lower many families' tax liability, which will then be erased by the child tax credit.

"Some tax relief is a no-brainer," Grassley said. "Helping parents keep a little more money to raise their kids doesn't require much analysis. I hope for an easy time getting my new legislation passed and signed into law."